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September 23, 1997

Via Facsimile

The Honorable Reed E. Hundt
Chairman
Federal Communications Commission
1919 M Street, NW; Suite 804
Washington D.C. 20554

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Re.: WT Docket 97-82

Dear Chairman Hundt:

We understand there may be some debate within the Commission with respect to what would be an appropriate discount rate to use to determine the present value of the C-Block debt to the FCC. We are writing to offer some information that may help clarify the situation.

There are a number of ways to determine the appropriate discount rate. One way is to reference the recent cost of capital for comparable firms. Accordingly, we examined a number of recent "initial debt offerings" by several telecommunications companies that provide a reasonable proxy to the C-Block. This approach yields a discount rate ranging approximately from 15.0% to 16.5% per annum. The summary of our analysis is attached.

A second approach would be to back into imputed discount rates based on the Congressional Budget Office's estimated recovery on the FCC debt. Even in its initial assessment, the CBO estimated the net present value of the FCC debt to be around 60% of the nominal values - an imputed discount rate of approximately 15% per annum. In subsequent public statements, the CBO is on record as expecting the total recovery on the C-Block licenses to be from $3 to $5 billion. The range of imputed discount rate consistent with such recoveries is approximately from 20% to 30%. This approach, by the way, is fully consistent with that of another Federal agency, the Securities and Exchange Commission, which in the course of its formal responses to a number of C-Block entities which had filed registration statements, had asked them to revise downwards the carrying value of their FCC debt to more accurately reflect the "market value."

The last approach is a determination of the current actual cost of capital to the C-Block entities. From our own experience and based on discussions with various underwriters, the cost of equity capital for the C-Block is at a minimum, 30% per annum - but is infinitely higher in the absence of a speedy and rational resolution of the FCC restructuring process currently underway. In terms of debt capital, the cost would again depend greatly upon the specifics of the FCC restructuring. However, pending a reasonable and rational outcome, the "all-in" cost of debt capital is likely to be 18-22% per annum.

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In summary, the appropriate discount rate for the C-Block can be determined as follows:

Method	Cost of Capital
Market Comparisons (debt only)	15.0%-16.5%
Federal Agencies (CBO estimates)	15.0%-30.0%
Actual Cost (debt/equity underwriters)	18.0%-30.0%

The US Treasury rate that represents the nominal interest rate on the FCC debt is, by definition, the "risk free" cost of capital and not a "market rate". Such rate applies, both in theoretical and practical terms, to only one entity in the entire world - obligations of the sovereign United States. Other than inflation, there is no risk component attached to either the interest or the principal payments. The FCC's own experience with the C-Block starkly demonstrates that the C-Block enterprises are replete with risk. If there is any doubt, one needs only to look at the FCC's own (and the CBO's) estimates of total recovery on the FCC debt for a reality check.

We understand that the FCC is fully aware of the import of its decision and we hope that the above discussion is helpful to the FCC in making its final determination with respect to the appropriate discount rate. We will be happy to answer any questions with regard to this letter or assist the FCC in any other way that is appropriate.

Sincerely,

Frederick W. McCarthy /MUR

Frederick W. McCarthy
Chairman

FWM:mur

attachment: C-Block Cost of Debt Capital

cc: Commissioner James H. Quello
Commissioner Rachelle B. Chong
Commissioner Susan Ness
Mr. Daniel Phythyon
Mr. John Garcia

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C-Block Cost of Debt Capital

The following four examples illustrate the cost of debt capital in the public/144A markets for early stage telecommunications ventures. Two (Clearnet Telecommunications and Microcell Telecommunications) are Canadian PCS companies (Clearnet also has a national SMR license); the third, Iridium LLC is a satellite communications firm; and the fourth, Chase Telecommunications is a C-Block enterprise. While each of the four companies were in varying stages of development and capital formation at the time of their respective "initial" debt offerings, all but Chase were significantly further along than the typical C-Block company today. Perhaps not so coincidentally, Chase was also the only one unable to complete its offering. To date, no true C-Block company has been able to successfully access the public capital markets[1].

Clearnet Communications

Clearnet is a Canadian PCS company that owns one of two nationwide PCS licenses (as well as a nationwide SMR license) in Canada. Clearnet completed an IPO on October 13, 1994 , and on December 11, 1995 issued $180 million in gross proceeds of 14.75% Senior discount Notes of 2005. The Notes were part of a Unit offering that essentially packaged 3.3 warrants with each $1,000 nominal value of the Notes. Adjusted for the value of the warrants, the Notes were priced at 45.17% of par representing a "stripped yield" or true cost of debt of 15.78%

Summary Issuance Data:

Date:	12/11/95
Gross Proceeds:	$180 million
Maturity:	10 years
Form:	Unit Offering ($10,000 face of Notes + 33 warrants)
Coupon:	Split -- 0/14.75%, 5/5 years
Issue Price:	49.009
Warrant Value:	$38.37 per $1,000 principal amount (Black/Scholes)
Stripped Price:	45.17
Stripped Yield:	15.78%

[1] The only purported exception is Omnipoint Corporation, which has significant debt as well as equity market capitalization. However, Omnipoint is not a true C-Block company, having obtained its first (and most significant) asset -- the New York MTA license -- in the A-Block and through the so-called pioneer's preference, outside the competitive bidding process that the C-Block licensees were subjected to. Moreover, Omnipoint received its key New York license in December 1994 ; a full 21 months ahead of many C-Block licensees, allowing it to successfully tap the public equity markets in January, 1996 when wireless equities were greatly in favor. Also, at the time when Omnipoint first tapped the public debt markets, it already had an equity market capitalization in excess of $1.34 billion. Given its A-Block and subsequent D/E/F Block purchases, its C-Block properties account for less than 15% of its footprint.

Microcell Telecommunications

Microcell is the other Canadian PCS company and it first accessed the public debt markets on June 20, 1996 when it successfully issued $200 million in gross proceeds of 14% Senior Discount Notes of 2006. The Microcell Notes were also sold as a unit, each $1,000 nominal value of Notes being packaged with 4.0 warrants to buy Microcell common stock (7.5% of the equity in aggregate). The units also have a contingent warrant that effectively gives the Noteholders an additional 3.5% of the equity if the company's stock is not publicly listed by the end of calendar 1997. Microcell is in the midst of a public offering of its debt and equity as of right now (expected to close October 7, 1997). Stripped Microcell warrants have been trading at $22.50 per warrant or $90 per $1,000 face amount of Notes. Adjusted for the warrant value, the Notes had an initial issue price of 38.85% of par, representing a stripped yield of 16.52%.

Summary Issuance Data:

Date:	6/20/96
Gross Proceeds:	$200 million
Maturity:	10 years
Form:	Unit Offering ($1,000 face of Notes + 4 warrants)
Coupon:	Split – 0/14%, 5.5/4.5 years
Issue Price:	47.85
Warrant Value:	$90 per $1,000 face amount of Notes (recent trades)
Stripped Price:	38.85
Stripped Yield:	16.52%

Iridium LLC

Iridium is a global satellite telecommunications company planning to launch and operate a 66 satellite global umbrella to facilitate voice/data/paging transmissions from anywhere on the earth. Like Clearnet (but unlike Microcell), Iridium too was a publicly traded company at the time of its recent initial debt offering (on 7/16/97) which consisted of two cash pay tranches, one yielding 15% but with no equity, and the other yielding 13.5% but with warrants attached for an aggregate 1% of the company. The actual Notes bear coupons of 14% and 13% respectively, but were issued at a discount to produce a higher stripped yield of 15%.

Summary Issuance Data:

Date:	7/16/97
Gross Proceeds:	$800 million
Maturity:	10 years
Form:	Unit Offering ($10,000 face of Notes + 33 warrants)
Coupon:	Split – 0/14.75%, 5/5 years
Issue Price:	97.598/95.429
Warrant Value:	$46.67 per $1,000 face amount of Notes (Black/Scholes)
Stripped Price:	90.76
Stripped Yield:	15.00%

Chase Telecommunications

Chase is the winner of 11 C-Block licenses covering 6.3 million POPs, mostly in the Tennessee, Alabama, Kentucky, and Southeastern Virginia regions (areas that fill-in the PrimeCo footprint). Chase, which had bid an average of approximately $29 per POP for its properties, has been trying for some time to access the public capital markets. Chase is planning to market under PCS PrimeCo's brand and pricing umbrellas and conducted a "roadshow" in late spring for approximately $150 million in debt. The structure was similar to most other recent Telecom debt offerings and prior to getting pulled, actually had 20% of the Chase's common equity attached. In spite of numerous concessions and accommodations made by both the Company as well as its key vendors/backers – Qualcomm and Primeco, Chase was unable to price its transaction at any price.

Summary Issuance Data:

Date:	N/A
Gross Proceeds:	$150 million
Maturity:	10 years
Form:	Unit Offering
Coupon:	Split -- 0/14%, 5/5 years
Issue Price:	NA
Warrant Value:	$57.50 per $1,000 principal amount (Qualcomm purchase basis)
Stripped Price:	NA
Stripped Yield:	15.92% (imputed)

Summary Cost of Debt Capital

Based on the above examples, the cost of debt capital for C-Block companies is estimated to be from 15% to 16.5% per annum.